B-2

CITY OF LODI
COUNCIL COMMUNICATION

TM

AGENDA TITLE: Authorize the City Manager to Engage Lamont Financial Services to Provide Advice with Regard to Redemptions of Electric Utility Certificates of Participation Dated 2002

MEETING DATE: March 11,2008

PREPARED BY: Deputy City Manager

RECOMMENDED ACTION: Authorize the City Manager to engage Lamont Financial Services for a not to exceed amount of $50,000 for professional services with regard to the redemption of Electric Utility Certificates of Participation dated 2002.

BACKGROUND INFORMATION: The City Council has previously selected Lamont Services as the City's financial advisor. The Council has requested to authorize specific engagements that Lamont may provide. Recently, the City has been tendered with two "put" requests totaling $2.5 million of the outstanding 2002 Certificates of Participation. The remarketing of the put requests exceeds staffs capacity. Staff is recommending that Lamont be retained to assist in dealing with the currents puts tendered and any future puts related to the Electric Utility 2002 Certificates of Participation.

FISCAL IMPACT: Unknown at this time.

FUNDING: Not applicable.

James R. Krueger, Deputy City Manager

APPROVED: ______________________

Blair King, City Manager

B-2

page 1

Friday, March 7. 2008

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California Issuers Eye New ARS Strategies

Orrick, CSCDA Craft Pooled-Debt Program

Friday, March 7. 2008

By Rich Saskal

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OAKLAND, Calif. - It war a scene that is being played out of late in boardrooms and meeting rooms at public agencies in California and around the nation

The Bay Area Toll Authority's finance staff, bankers. attorneys, and advisers explained to the officials who serve on BATA's board just exactly why they were asking for authority to refinance bonds that they never expected to worry about.

"You are not alone in what you are doing here," Mary Collins. partner with bond counsel Orrick, Herrington h Sutcliffe LLP, told the BATA board Wednesday. "Boards all over the area are having similar types of meetings where they're asked to pursue a different strategy."

In the case of BATA, which has almost $3 billion of outstanding variable. rate debt, the board approved a $1.2 billion restructuring plan to allow the authority to take out its auction-rate debt and its variable-rate demand bonds backed by troubled XL Capital AssuranceInc. It also authorized a plan to renegotiate liquidity agreements designed lo restore the marketability of VRDBs wrapped by Ambac Assurance Corp.

Reacting to the ongoing turmoil that has roiled the variable-rate debt markets and brought the viability of the bond insurance industry into question, big issuers are planning major refinancings, lawmakers arc moving legislation, and conduit issuers are reworking their procedures

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2.
3.
4.
5.

Page 2

Given the sheer magnitude of the problem, Orrick attorneys are developing a pooled-debt program through the California Statewide Communities Development Authority that would provide a vehicle for variable-rate issuers to park their debt at a fixed rate for a year to provide time to gain breathing room while the market recalibrates itself

The pooled bond program could be on a massive scale - measured in the tens Of billions - raid the program's architect, Orrick partner Bill Doyle, who leads the firm's insured variable-rate auction bonds task force.

"This isn't a permanent solution," he said. "This is simply a means of buying one year's time for participating issuers to undertake their own refunding or own remarketing, but in their own time frame. and in a more reasoned fashion."

The CSCDA will issue one-year liquidity notes, the proceeds of Which would be used to buy issuers' outstanding variable-rate debt to hold for a year.

It works. Doyle mid. because typical variable-rate bonds permit the issuer to change interest-rate modes. an action that triggers a mandatory tender back to the issuer.

Participants in this program will convert their bonds to a one-year fixed-term interest rate. After the ensuing tender, the issuers will remarket the bonds to the CSCDA, which will buy them with the proceeds of its liquidity note sale.

Though the program is likely to incorporate some bank liquidity. Doyle mid, the credit quality of the pooled bonds would derive from the underlying quality of the bonds in the pool. which would have to have a minimum single-A level rating.

The original bonds will remain outstanding. with the expectation that issuers can remarket them in a year. by which time the direction of the market may be clearer. Outstanding insurance remains in effect, which could benefit issuers if their Insurer is able to regain its reputation by then.

Marketing for the program hasn't begun in earnest. Ooyie raid, but the potential for it is sizable

"The potential participant pool is well into the tens Of billions. That could he a pretty big financing," he said. adding that it could come in multiple series.

Public Financial Management Inc. is financial adviser to the program: Morgan Stanley, Merrill Lynch h Co. and Goldman, Sachs & Co. arc underwriters. Given the urgency of the problem, with some issuers of failed auction-rate paper paying double-diqit penalty inter. the team is working to have the issue ready in weeks

other issuers are already beginning to hit the market with refinancings.

The California Department of Water Resources plans to price 57.025 billion of power revenue bonds next Thursday. largely to refund outstanding auction-rate bonds insured by Ambac and XL.

Auctions for those bonds have faiied, Causing interest rater to reset at maximum rates of up to 6.22%, according to the rating report from Moody's Investors Service, which affirmed its underlying Aa3 rating and stable outlook on the DWR power bonds, Originally issued to pay for emergency power purchaser during the California power crisis of 2000 and 2001

Fitch Ratings this week upgraded its rating of the DWR power bonds to A-plus from A. retaining its positive outlook. Standard & Poor's assigns an A rating with positive outlook.

Bear. Stearns & Cn. is the book-runner

The California State Treasurer's Office is addressing the market turmoil on several fronts.

The state has $500 million of outstanding general obligation auction-rate bonds.

"The Plan is tn Convert 5400 million of that pronto into commercial paper." said Torn Dresslar, spokesman for Treasurer Bill Lockyer. The remaining $100 million doer not reset until January. and the state can live with its current 3.15% rate until then, he said.

Dresslar raid the treasurer is also backing emergency legislation launched this week in the California Assembly to address the problems in the variable-rate market.

"It would make it crystal clear in state law that issuers can buy back variable-rate and auction-rate bonds. hold on to their for a while, and sell them back into the market at an appropriate time that maker sense for taxpayers," Dresslar said.

While the new state law could help, there remains the issue. much debated among bond lawyers . of how

Page 3

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"One of the issues we can't solve in a state statute is this whole question out there of the extent to which issuers who buy back their bonds expose themselves to action by the SEC," Dresslar said.

The California Health Facilities Financing Authority, a conduit issuer operated under the auspices of the treasurer's office, also announced plans to make it easier for its borrowers to refinance variable-rate debt they had issued using CHFFA as a conduit.

The agency announced this week that it will add board meetings so that borrowers can gain the authority they need to refinance as soon as possible. The first special meeting will be Tuesday. two weeks before the next scheduled meeting.

"We're just trying to alleviate the strain on these borrowers as soon as we can," said CHFFA spokesman Joe DeAnda. "We just expedited the normal meeting date."

The first special meeting is Tuesday, and six health care borrowers have reserved places on the agenda for applications to refinance as much as $4.6 billion in outstanding debt.

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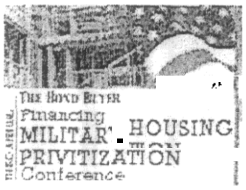
The six potential applicants are Catholic Healthcare West, Sutter Health, Stanford Hospitals and Clinics, Lucile Salter Packard Children's Hospital, Scripps Health,and Hoag Memorial Hospital Presbyterian.

"We haven't heard yet which ones are coming and for how much," DeAnda said

At BATA, the board Wednesday authorized the issuance of up to $1.2 billion in variable-rate bonds to refinance the toll authority debt most damaged by insurer downgrades and the collapse of the auction-rate market.

It's a measured approach to dealing with problems in BATA's $2.9 billion variable-rate portfolio, chief financial officer Brian Mayhew told board members.

Page 4



That approach should allow the agency to keep its extensive swap portfolio in place and keep debt service costs low enough to avoid an increase in the bridge tolls that back BATA's bonds, he said.

The new debt would take out the agency's $720 million auction-rate portfolio. That market appears to be structurally broken with little chance of correction, BATA executive director Steve Heminger told board members.

The bonds would also allow the authority to take out *S290* million of variable-rate demand bonds insured by XL, which has been downgraded to single-A levels, repelling short-term investors and driving BATA's rates for XL-wrapped VRDBs above 6%, despite the authority's double-A level underlying ratings.

"They are in a place that they are not going to recover in al! likelihood," Heminger said *of* XL.

BATA also has almost $1.9 billion of outstanding VRDBs with a long-term wrap from Ambac. and doe5 not plan to refund that debt, at least for now.

Mayhew said that the authority is now confident that **it** can renegotiate the bank iiquidity facilities supporting the Ambac-wrapped VRDBs in a way that wiil assuage investor fears about Ambac, which still has triple-A ratings from Standard & Poor's and Moody's, and a AA Fitch rating.

"We believe there is still a good chance that Ambac can straighten out its affairs, recover its triple-A rating. and we can go back *to* being the happy clams we used to be before all of this nonsense started," Heminger said.

As the BATA meeting wound down to the unanimous authorization vote, the boards chair, Bill Dodd, a Napa County supervisor, noted that BATA had sunk a great deal of money into buying insurance policies that will end up costing the agency millions of dollars.

"Somehow, you guys have got to come back to us and say how are we going to recoup some of that money," Dodd said.

Herninger replied: "Frankly, we owe you a serious discussion *of* that. Probably in closed session."

Previous Page 1 , 2
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